

China: more inclusive urbanization policies

- Push factors need to be strengthened
- Land reforms and residency / 'hukou' reforms must proceed simultaneously
- Urbanization must put more emphasis on efficiency and equality

The benefits of rural residency sometimes outweigh the benefits of migrating to urban areas

Thirty years ago, fewer than 200 million people lived in China's cities and towns. Today, urban dwellers number 700 million. That growth represented one of the largest waves of human migration in history, supplying the manpower behind China's export-driven economic boom.

Urbanization has long been a central policy of the government. The target of a 60 percent urbanization rate by 2020 will require a 1.1% increase in the annual urbanization rate on average, compared with 1.0% over 1978-2013. This is a tall order under current policy constraints.

Firstly, rapid urbanization in the past was largely driven by pull-factors, such as employment opportunities in cities and large urban-rural wage gaps. But these gaps have narrowed in recent years. Going forward, push factors will play a bigger role. That will entail a complex array of socio-economic factors. For instance, the benefits of rural residency – key among which is being allocated a plot of land for farming – sometimes outweigh the benefits of migrating. A survey by the Sichuan province Bureau of Statistics [1] found that 90% of migrant workers didn't want an urban hukou. This is understandable, as under existing laws, farmers are unable to transfer or sell their rural land use rights even if they have moved to urban areas. It gives them little monetary incentive or financial resources to migrate.

Secondly, the old form of urbanization bore many side-effects. Many of the more attractive cities were over-crowded and unprepared for the influx of newcomers. The three biggest cities in China held 14% of the country's population on less than 3% of national land area. Public goods were stretched and social problems deepened as slums grew with urban sprawl. The unequal treatment of migrant workers – which made up about one third of the total urban population – was another cause of social discontent. Under the household registration system, migrant workers with a rural hukou were not entitled to the same social welfare that was available to residents registered as "urban". Without that safety net, the need for high precautionary savings crimped workers' consumption potential. The tough conditions deterred some rural dwellers from moving to urban areas.

These sorts of problems do not facilitate economic growth. To address such issues, urbanization under the new normal must give more emphasis to efficiency and equality, particularly through hukou reforms and land reforms.

A pilot plan is underway to reduce land expropriation and gradually increase the marketisation of collectively-owned land

In the area of hukou reforms, the government has set criteria that migrants coming into cities must meet before they can apply for local resident status – the larger the city, the more stringent the criteria. This serves to minimize overcrowding in larger cities and encourage the development of smaller cities. In coming years, local governments are expected to go further and scrap rural-urban distinctions. Unified registration would lead to fairer access to social welfare benefits and improve labor rural-urban mobility. In July 2014, the State Council advised that rural-urban distinctions under the household registration system be scrapped, attempting to end a practice adopted since 1958. In November 2014, Henan, Heilongjiang and Hebei provinces and Xinjiang Uygur autonomous region scrapped their rural-urban hukou distinctions.

Land reforms are also gathering pace. A pilot plan is underway to reduce land expropriation and gradually increase the marketisation of collectively-owned rural construction land in counties and county-level cities. This follows unofficial experiments of property rights transfers by some cities. Shenzhen has already conducted a collective-owned rural land transaction in the open market in December 2013, which sets an example of what land reforms will look like in the coming decade.

Under existing laws, rural land is owned by village collectives, and the associated land use rights can be transferred in the market only after it is expropriated by the government and converted to state-owned urban land. In Shenzhen's case, collectively-owned rural land was directly leased to bidders, skipping the land expropriation process altogether. If this simplified procedure were implemented nationwide, urban land supply would increase, facilitating the urbanization process. Meanwhile, reducing land expropriation could ease social injustices arising from the process whereby local governments expropriate rural land from rural collectives at below-market prices. As farmers receive more proceeds under the proposed new system, they would have more financial freedom to choose between migrating to urban areas and staying behind to improve their living standards in the countryside.

Notes

- [1] "2014 Sichuan province migrant workers survey report", Sichuan Provincial Bureau of Statistics, 25 July 2014

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